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C O N F I D E N T I A L SECTION 01 OF 02 HAVANA 000468

SIPDIS

DEPT FOR WHA/CCA

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TAGS: [ECON](#) [PGOV](#) [PINR](#) [PREL](#) [CU](#)

SUBJECT: WORLD FOOD AND ENERGY CRISIS FORCES CUBA TO ADAPT

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Classified By: COM: Michael E. Parmly: For reasons 1.4 b/d

¶1. (C) SUMMARY: The steep increase in world food and energy prices is driving the Cuban regime to suppress its spending on investment, a key enabling component of its moderate economic reform strategy. Even tied to Chavez,s umbilical cord, Cuba is nevertheless exposed to the real world economy, and must adapt its central planning accordingly. While its energy diversification strategy will likely go into overdrive, it remains to be seen whether it is willing to accelerate its agricultural reforms. End Summary.

¶2. (U) Vice President Carlos Lage announced on June 7 that the GOC will reduce or postpone certain investments because of the rise in international food and fuel prices. Lage said the same amount of petroleum that the country consumed last year would cost 32% more this year. Likewise, he added that to import the same amount of food as last year would cost an additional USD 1 billion.

¶3. (C) Cuba imports about 50% of its minimum fuel and food requirements. In the absence of new sources of income, for cash-strapped Cuba this means having to triage among its planned investment projects in order to cut back on some of them. The timing is particularly damaging because it happens right as the GOC is introducing very moderate economic reforms -- which include the recent announcement of a limited introduction of salary incentives -- meant to increase productivity. Limiting some investments will also limit much of the hoped-for productivity gains.

¶4. (C) Some food prices, despite being subsidized, have already increased on the island. Because of the poor state of Cuban agriculture, the country is extremely dependent on food imports. The GOC,s solution has been to promote an import-substitution strategy, enabled by agricultural reforms. These reforms are thus far few in number, limited in scope, and only recently initiated. The GOC has reassured the Cuban people that it will have all the food necessary to satisfy the minimum requirements of the rationing system. (Note: The rationing system satisfies only about 10 days out of Cubans' monthly needs. End Note.) However, for the short term Cuba will remain very vulnerable to food prices.

¶5. (C) Cuba is somewhat shielded from international oil spikes by its "special" relationship with Venezuela. But

even the heavily preferential terms (the exact terms are a closely held secret) that Cuba benefits from are indexed to world oil prices. As world prices spike, the price paid by Cuba increases proportionally.

¶16. (C) Because the terms include very long repayment periods at extremely low interest rates, the GOC only feels immediate pain on the portion it must pay at the time of purchase, which is already much lower than that paid by other countries in international markets. Nonetheless, the GOC is well aware that the cost of continued increases, even if subsidized, is unsustainable in the long run. The decision to curb some investments and rumors that the regime is about to increase fuel prices reflect the degree to which the regime is challenged by new economic realities.

¶17. (C) Comment: Before the recent oil spikes, the GOC was already looking to diversify its energy sources beyond Venezuela. Likewise with food prices, the GOC's initial intent was to try out some limited agricultural reforms, then expand on these, but only after thoroughly monitoring and assessing their results. Sudden record prices should put added pressure on the GOC to accelerate both strategies: diversification of energy sources and food production. The GOC will likely intensify its probing of "solidarity" countries for preferential terms and "special" arrangements (like doctors for oil). If the GOC decides to pass some of the fuel price increases onto consumers, the negative repercussions in Cuba would be felt by relatively few people -- a few private car owners and Cubans who operate vehicles owned by state enterprises, in which case the state enterprise, i.e. the GOC, will absorb the increase. Increases in food prices, however, would negatively and directly affect most Cubans. Cuba will remain extremely vulnerable to world food prices as long as these reforms

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remain in the "experimental" phase. If the country's economic reform strategy was, at best, tentative before the oil-food crisis, now it is even more delicate and the need for real reform more urgent.  
PARMLY